

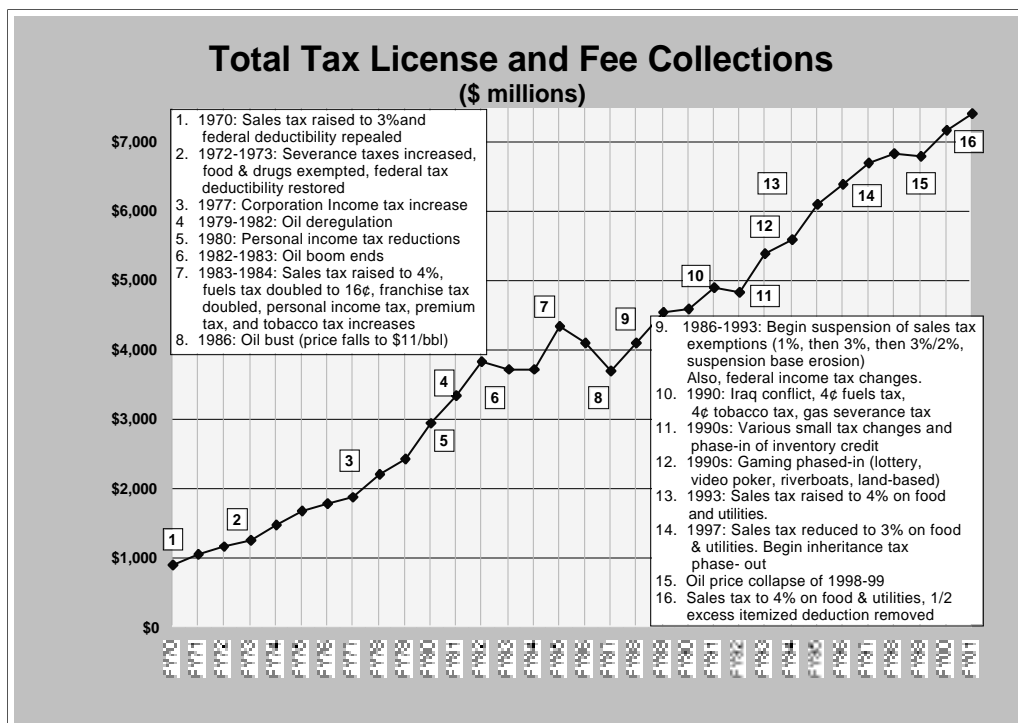
**State Tax Revenue History**  
**1970-2001**  
**32 Years of**  
**Tax Changes and Revenue Growth**  
**in Louisiana**

### **Major Events Affecting Revenues 1970 to 1986**

- 1. 1970: Sales tax raised to 3% and federal deductibility repealed**
- 2. 1972-1973: Severance taxes increased, food & drugs exempted, federal tax deductibility restored**
- 3. 1977: Corporation income tax increase**
- 4. 1979-1982: Oil deregulation**
- 5. 1980: Personal income tax reductions**
- 6. 1982-1983: Oil boom ends**
- 7. 1983-1984: Sales tax raised to 4%, fuels tax doubled to 16¢, franchise tax doubled, increases in personal income, premium, and tobacco taxes**
- 8. 1986: Oil bust (price falls to \$11/bbl)**

**Major Events Affecting Revenues 1986 to 2001**

- 9. 1986-1993: Begin suspensions of sales tax exemptions (1%, 3%, 3%/2%, base erodes)**
- 10. 1990: Iraq conflict, 4¢ fuels tax, 4¢ tobacco tax, gas severance tax raised**
- 11. 1990s: Small tax changes, phase-in of inventory credit**
- 12. 1990s: Gaming phased-in (lottery, video poker, riverboats, land-based)**
- 13. 1993: Sales tax to 4% on food and utilities**
- 14. 1997: Sales tax to 3% on food and utilities; begin inheritance tax phase-out**
- 15. Oil price collapse of 1998-99**
- 16. Sales tax to 4% on food and utilities, 1/2 excess itemized deduction removed**



Since 1970, the State's Tax License and Fee Base has exhibited substantial growth in nominal terms, increasing from \$916 million in 1970 to \$7.4 billion forecast for 2000-01. However, this increasing revenue trend has not occurred entirely "naturally"-- it has resulted, in part, from frequent intervention in the tax structure, as outlined in this presentation.

Even before the oil boom of the late 1970s, tax changes were not unusual. Between 1970 and 1979, there were a number of significant tax changes. The sales tax rate was raised to 3%, federal income tax deductibility was repealed and then restored again, oil & gas severance taxes were increased, food & drug sales tax exemptions were granted, and corporate income taxes were increased.

The oil boom brought rapid revenue growth and the opportunity for tax reductions. Most notable of these were the reductions in personal income taxes (largely reinstated later), and the repeal of the state occupational license tax.

By 1982-83, the oil boom had ended and state revenues declined with the state's economic recession. 1983-84 saw the reversal of the recent personal income tax reductions, and significant other tax increases such as the sales tax rate raised to 4%, the motor fuels tax doubled to 16¢/gallon, the franchise tax doubled, and increases in insurance premium taxes, tobacco taxes and others.

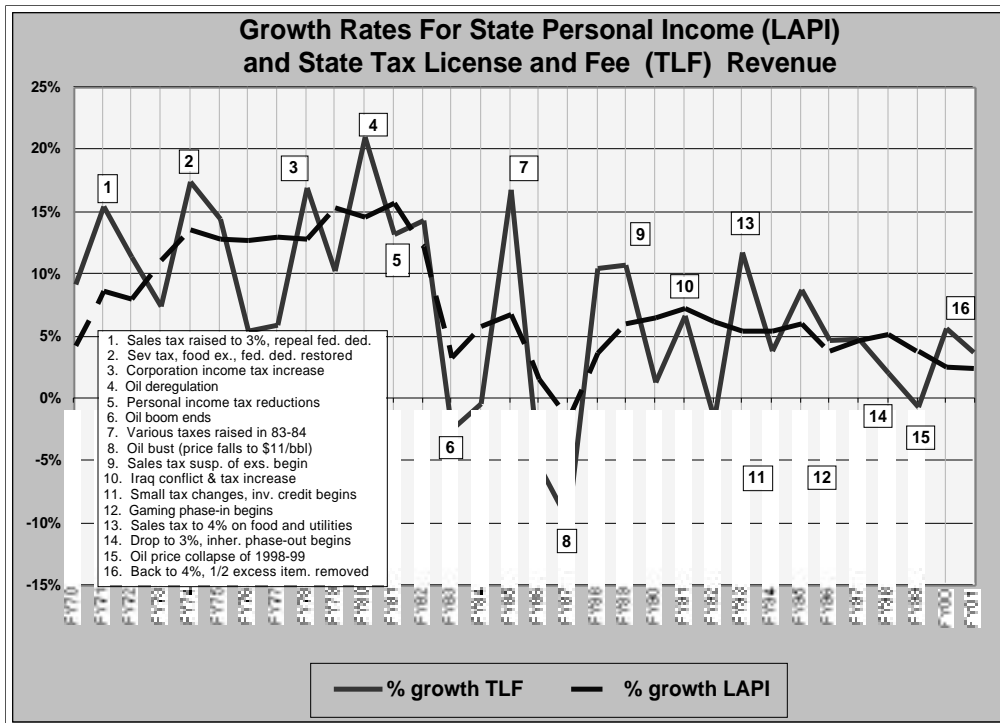
In 1986, the oil bust (prices fell to \$11/bbl) played havoc with both the state's economy and state tax collections. This resulted in the first "temporary" suspension of sales tax exemptions to a 1% rate on food, utilities and other traditionally exempt transactions. However, because of the magnitude of the economic recession, this change does not show on the graph. From 1986 to 1993 various suspensions of exemptions were enacted. Tax Rates were imposed from 1% to 3% on most exempt transactions and then varying rates over different suspension tax bases. Suspension tax base erosion also occurred as transactions were removed from this tax (initially 1% raised \$160+ million, now 1% raises about \$110 million, inclusive of inflation).

In 1990, the Legislature enacted some tax changes (tobacco tax, fuels tax, gas severance tax), although these were largely overshadowed by the temporary increase in oil revenue associated with the Iraq/Middle East War. The 1990s were relatively good years as the state recovered from the oil bust of the mid-1980s. Even so, sales tax of food & utilities was raised to 4¢ in 1993 and various forms of gaming were phased-in (lottery, video poker, riverboats, land-based).

Near the end of the 1990s, the revenue picture looked good enough to handle the completion of the phase-in of the inventory credit, the beginning of the phase-out of the inheritance tax, and the reduction of the sales tax on food & utilities back to 3%.

Then, in 1998 through the spring of 1999, oil prices collapsed to levels reminiscent of 1986. Revenue growth slowed in FY98 and declined in FY99. The surprising surge in oil prices since then boosted revenues in FY00 and contribute to a somewhat improved outlook in FY01. However, the past session saw the consideration of probably a record number of revenue raising measures, and a return to a 4% sales tax on food & utilities along with the elimination of one-half the deduction for excess federal itemized deductions on state personal income tax returns. In addition, another 4¢ tobacco tax was imposed and per-child tax credit was also eliminated.

With these 16 major items annotated on the chart, it is clear that our relatively regular increasing revenue trend has not necessarily been an inherent feature of the tax structure. Rather, it has been helped along by frequent changes in tax rates and bases, usually changes that increase tax receipts.



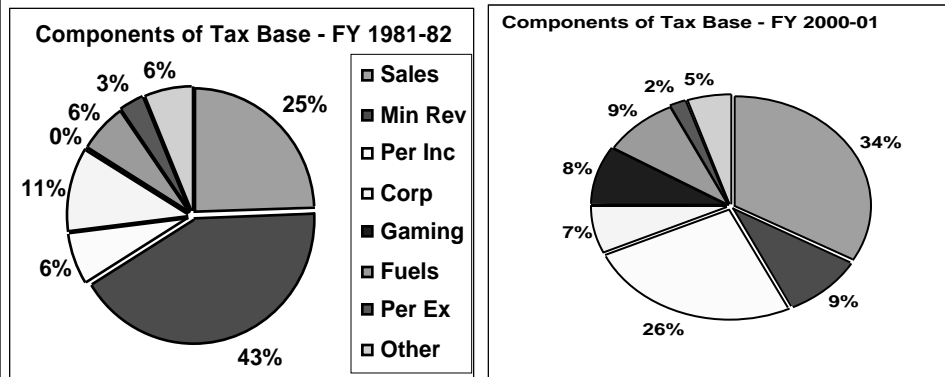
This chart illustrates the revenue events from a growth perspective, relative to personal income growth in the state.

The broken line reflects the annual percentage change in nominal Louisiana personal income (a proxy for state economic activity). The solid line reflects the annual growth in the state's nominal revenue collections, or Tax, License and Fee Revenue.

The following points are evident in this chart.

1. The broad trend in state revenue moves with the trend of the state's personal income.
2. Revenues from the state's tax structure are much more volatile than state income growth.
3. Almost all of the tax increases occurred following a period where revenue did not keep up with state income growth.
4. None of the changes were successful in sustaining tax growth at or near the rate of income growth.

## Changing Role of Major Taxes Oil Boom to Today



The pie charts above contrast the current revenue mix with the mix that existed in FY82, the peak year for oil receipts. Note the much smaller mineral revenue share and the much larger shares for sales tax, personal income tax, and gaming receipts.

Sales and income tax shares would naturally be larger if any other share declined, but these taxes were explicitly increased over this period. Significant increase in sales tax were imposed in 1984, 1986, 1988, 1990, 1993, and again in 2000. Personal income taxes were increased in 1983 and 2000, and the revenue gains resulting from federal tax changes in 1986 were retained. In addition, gaming revenue began to be phased in starting in 1992.

These three revenue sources have replaced and/or supplemented the dominance of mineral revenue in the state's revenue mix. While there have been other taxes increased over this period (franchise, fuels, tobacco), these revenue sources are not much more important today than they were in FY82.

--- More diversified revenue mix but still concentrated in a few revenue sources that can move together.

--- Growth potential exists because income, sales, gaming, and fuels are all positively related to income, but this growth potential is limited.

--- Revenue growth can still slow dramatically and even decline due to weakness in any particular or combination of revenue sources.